

RETAIL EQUITY RESEARCH

Heranba Industries Ltd.

Agrochemicals

Sensex: 51,325

Nifty:15,119

SUBSCRIBE

Price Range Rs. 626 - Rs. 627

An export-oriented crop protection player...

Heranba Industries Ltd (HIL), incorporated on July 26, 1996, is one of the leading crop protection chemical manufacturer, exporter and marketing company based out of Vapi, Gujarat. It is one of the leading domestic producers of synthetic pyrethroids (market share of ~20% in 2019) in India. Their pesticides range includes insecticides, herbicides, fungicides and public health products for pest control. HIL currently has 3 manufacturing and packaging facilities in and around the industrial belt of Vapi, Gujarat.

- Enjoys presence in the entire product value chain of the agrochemicals industry i.e. Intermediates, Technicals and Formulations.
- Extensive distribution network of more than 9,400 dealers supported by 21 stock depots spread across 16 states and one union territory in India.
- HIL exports products to more than 60 countries across the world, which contributes ~49% to FY20 total sales.
- Adoption of 'Blue Sky' program in China (shutdown of agrochemical plants in china due to green movements) is expected to boost exports of pyrethroids in future.
- Indian Pyrethroids market grew at a CAGR of ~7.4% over FY14-FY19 and is expected to grow at a CAGR of 8.5% during FY20-25E.
- Being a dominant player in Pyrethroids market, HIL is well placed to reap the benefits of industrial growth on the back of potential for export, favorable Govt. policies & increased demand for horticulture and forticulture.
- The well-equipped & modern manufacturing facilities in Gujarat has 174 reactors with a combined average capacity utilisation of ~80% in FY20.
- Heranba to enter the highly regulated markets of USA & Europe to tap the growth opportunities with higher margins for their existing and new line of products.
- Revenue grew ~13% CAGR over FY18-20 led by strong volume, increase in export sales and good monsoon. PAT grew at a CAGR of 44%(FY18-20) led by better operating performance and topline growth.
- At the upper price band of Rs.627, HIL is available at P/E of 18.9x (annualized basis on FY21E EPS of Rs.33.2) which is reasonable compared to its peers. We assign a "Subscribe" rating for the issue on a long-term basis considering the strong distribution network, increasing export opportunity with healthy margins and profitability.

Purpose of IPO

The Offer comprises of the Fresh Issue and the Offer for Sale. The proceeds from the offer for sale will go to the selling shareholders, while the amount received from the sale of fresh issue will be utilized for funding working capital requirements and general corporate purposes.

Key Risks

- Raw materials cost accounted for ~66% of the total income in FY20.
- Increasing acceptance of organic farming.

Peer Valuation

Company	MCap (Rs cr)	Revenue (Rs cr)	EBITDA margin (%)	EPS	RoE (%)	P/E
Heranba Industries	2,509	951.4	13.6	33.2*	32.3*	18.9*
Bharat Rasayan Ltd	4,140	1,215	18.9	371	32.4	26.8
Punjab Chemicals and crop protection Ltd	1,049	538	7.9	8.8	11.4	24.2
Rallis India	5,104	2,252	11.6	9.3	13.7	25.3

Source: Geojit Research, Bloomberg; Valuations HIL are based on upper end of the price band, Financials as per FY20. * Annualised P/E, EPS & RoE for HIL

Issue Details			
Date of Opening	23 rd February, 2021		
Date of Closing	25 th February, 2021		
Total no. of Shares offered(cr)	0.997		
Post Issue No. of shares (cr)	4		
Price Band	Rs. 626- 627		
Face Value	Rs. 10		
Bid Lot	23 shares		
Minimum application for retail (upper price band for 1 lot)	Rs. 14,421		
Maximum application for retail (upper price band for 13 lot)	Rs. 187,473		
Listing	BSE & NSE		
Lead Manager	Batlivala & Karani Securities India Private Limited, Emkay Global Financial Services Ltd		
Registrars	Bigshare Services Pvt Ltd.		
Issue size (upper price)			
Fresh Issue	60		
OFS	565.24		
Total Issue	625.24		
Shareholding (%)			
	Pre Issue	Post Issue	
Promoters	98.8	74	
Others	1.2	26	
Total	100	100	
Issue structure			
	Allocation %	Size Rs.cr	
Retail	35	218.83	
Non -Institutional	15	93.79	
QIB	50	312.62	
Total	100	625.24	
Y.E March (Rs cr)			
	FY19	FY20	H1FY21
Sales	1,004	951	618
Growth (%)	34.8	-5.3	-
EBITDA	131	129	99
Margin%	13.1	13.6	16.1
PAT Adj	75	98	66
Growth (%)	60.6	30	-
EPS	18.8	24.4	33.2*
P/E (x)	33.3	25.7	18.9*
EV/EBITDA	19.5	19.7	25.6
RoE (%)	39.1	35.6	32.3*

*Annualised

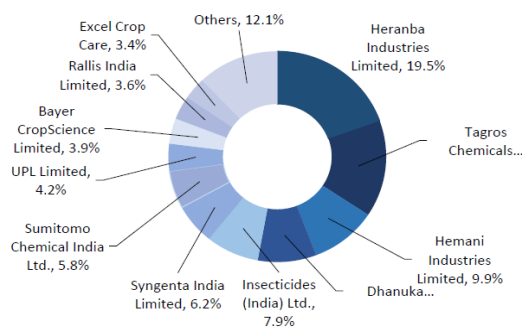
Company Description

Heranba Industries Ltd (HIL), incorporated on July 26, 1996, is one of the leading crop protection chemical manufacturer, exporter and marketing company based out of Vapi, Gujarat. It is one of the leading domestic producers of synthetic pyrethroids (market share of ~20% in 2019) like cypermethrin, alphacypermethrin, deltamethrin, permitherin, lambda cyhalothrin etc. in India. Their pesticides range includes insecticides, herbicides, fungicides and public health products for pest control. HIL currently has 3 manufacturing and packaging facilities in and around the industrial belt of Vapi, Gujarat. Heranba is present in the entire product value chain of the agrochemicals industry i.e. Intermediates, Technicals and Formulations and holds registrations for eighteen (18) Technicals for manufacture and sale in India, one hundred and three (103) Technicals & Formulations for manufacture and sale in the export markets and one hundred and sixty-nine (169) Formulations registered for manufacturing and sale in India. Some of Branded Formulations sold to farmers in the domestic markets are Jayam, Progress Plus, Param, Cypraplus, Dyken, Mantra, Astron, Signor, Prompt, Cypra, Heraban, Sarag, Alpha Shakti, Glory, Chakde, Heraquat, Zinta, Glory 71, Shera, Pendant, Atria, Temper and Rat Kill among others.

Key Business Segments

The business verticals include:

- (a) **Domestic Institutional sales of Technicals:** Manufacturing and selling of Technicals in bulk to domestic companies. The total domestic institutional sales of technical represents ~32% of FY20 sales.
- (b) **Technicals Exports:** Exports of Technicals in bulk to customers outside India. The total exports of Technicals represent ~37% of FY20 sales.
- (c) **Branded Formulations:** Manufacturing and selling of Formulations under own brands through own distribution network in India. The total exports of Branded Formulations represents ~13% FY20 sales.
- (d) **Formulations Exports:** Export of Formulations in bulk and customer specified packaging outside India. The total exports of Formulations represents ~13% of FY20 sales.
- (e) **Public Health:** Manufacturing and selling of general insect control chemicals by participating in public health tenders issued by governmental authorities and selling to pest management companies. The total exports of Public Health represents ~ 6.4% of FY20 sales.



Source: RHP, Geojit Research

Product Portfolio

Technical Grade Pesticides/Technicals:

Technicals, primarily made from the raw material CMAC and other Intermediates like cypermethric acid, metaphenoxy benzaldehyde and metaphenoxy benzyl alcohol

Insecticides:

HIL manufactures the following insecticides: Cypermethrin, Deltamethrin, Alpha Cypermethrin, Acephate, Lambda Cyhalothrin, Permethrin, Profenophos, Temephos, Theta Cypermethrin, Thiamethoxam and Imidacloprid.

Fungicide:

HIL manufactures the following Fungicides: Tricyclazole and Hexaconazole

Herbicides:

The company manufactures the following Herbicide: Glyphosate, Metribuzin & Clodinofof.

Intermediates:

An intermediate is a molecule that is formed from two or more reactants and then reacts further to give products. The company manufactures the Intermediates like Cypermethric Acid Chloride (CMAC), High Trans CMA, Bromobenzenes and Metaphenoxy Benzaldehyde (MPBD).

Formulations:

A pesticide formulation is a mixture of chemicals which effectively control a pest. Formulating a pesticide involves processing it to improve its storage, handling, safety, application, or effectiveness. Their major Branded Formulations include:

- i. **Insecticides:** Jayam, Progress Plus, Param, Cypraplus, Dyken, Mantra, Astron, Signor, Prompt, Cypra, Heraban, Sarag, Alpha Shakti and Henoxa.
- ii. **Herbicides:** Glory, Chakde, Heraquat, Zinta, Glory 71, Shera, Pendant, and Atria.
- iii. **Fungicides:** Macamba, Sulphy, Mask, Silicon Plus, Propizole, Vintage, Exort, Tulip, Mandy and Silicon.
- iv. **Public Health:** The Branded Formulations in this space are: Temper and Rat Kill.

Raw Materials:

The key raw materials are sourced from domestic companies, local suppliers and some of them are imported mainly from China (~13% in FY20). The key domestic suppliers are SRF Limited, Crescent Organics Private Limited, Gujarat Flourochemicals Limited, Gujarat Alkalies and Chemicals Limited, Sanjay Chemicals (India) Private Limited, Haresh Petrochem Private Limited, M.B. Sales Corporation and Akin Chemicals Private Limited amongst others. Costs of raw materials compared with aggregate revenue for the six months period ended on September 30, 2020 and for the Fiscal 2020, 2019 and 2018 is mentioned below:

Particulars	(₹ in million)			
	As at September 30, 2020	As at March 31, 2020	As at March 31, 2019	As at March 31, 2018
Total Revenue	6,192.11	9,679.06	10,118.38	7,504.10
Cost of materials consumed	4,517.88	6,397.80	7,083.55	4,970.07
% of Total Revenue	72.96%	66.10%	70.01%	66.23%

Source: RHP, Geojit Research

Wide distribution network & strong product portfolio...

HIL manufactures and supply Technicals to leading domestic and multinational agrochemical companies operating in and outside India which are used by them for manufacturing their own products. Heranba supplies Technicals like cypermethrin, alphacypermethrin, deltamethrin, permitherin and lambda cyhalothrin to other agrochemical companies in India. The end customers for Formulations are the farmers who use these products for crop protection and crop care. Heranba has more than nine thousand four hundred (9,400) dealers/distributors supported by twenty-one (21) stock depots spread across sixteen (16) states and one (1) union territory in the country in order to meet the demand of products from farmers. Further, the company educate farmers on the care and protection extended by products over their crops by conducting farmer training camps, participating in village level programmes and district exhibitions to establish a direct relationship with farmer communities all over India. The range of business activities i.e. from the manufacturing of Intermediates to the sale of branded Formulations, both in the domestic and international markets, offers ample opportunities to enhance revenue and profitability of the Company. As part of further growth strategy, the company intend to focus on manufacturing and sales of Formulations under own brands in India and the manufacturing and marketing of Public Health products.

Well-equipped manufacturing facility with dedicated R&D team...

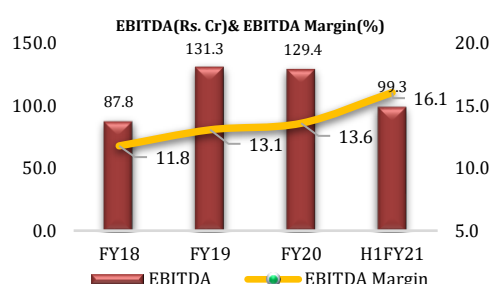
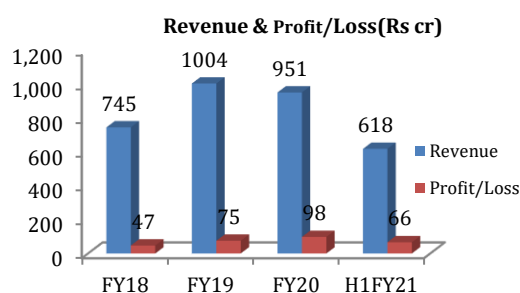
Heranba has three (3) manufacturing and packaging facilities in and around the industrial belt of Vapi, Gujarat with one hundred seventy-four (174) reactors having an aggregate manufacturing capacity of 14,024 MTPA. In order to enter the highly regulated markets of USA and Europe HIL has further enhanced its R&D facilities and capabilities by establishing a 2,000 sq. ft. R&D facility at Unit III (Sarigam Unit) which has become operational from October, 2020. Among the three manufacturing facilities, Unit I is a dedicated facility for manufacturing Technicals, Unit II for derivatives of CMAC and Unit III for liquid and powder Formulations and packaging of Formulations in various sizes and materials.

Domestic as well as global outreach...

In FY20, Heranba exported their products to more than sixty (60) countries across the world, including Saudi Arabia, Brazil, China, Iran, Russia, Portugal, Turkey, Ukraine, Tanzania, South Africa, Vietnam and Thailand. The International Distribution Partners sell the products of Heranba in these markets. The revenues from exports for the six months period ended on September 30, 2020 and for the FY20, FY19 and FY18 represents ~41.45%, 49.31%, 48.96% and 49.32% of aggregate revenues, respectively. The International Distribution Partners, with company's product and technical support, have obtained registrations for three hundred and seventy-one (371) Technicals and Formulations in forty-one (41) countries across Middle East, CIS, Asia, South East Asia and Africa. Further, one hundred seventy-two (172) of Heranba's Technicals and Formulations have been filed by overseas customers which are pending registration before the regulatory authorities of forty-one (41) countries in various regions across the world, excluding Europe. Heranba to enter the highly regulated markets of USA & Europe to tap the growth opportunities with higher margins for their existing and new line of products.

Financial Performance...

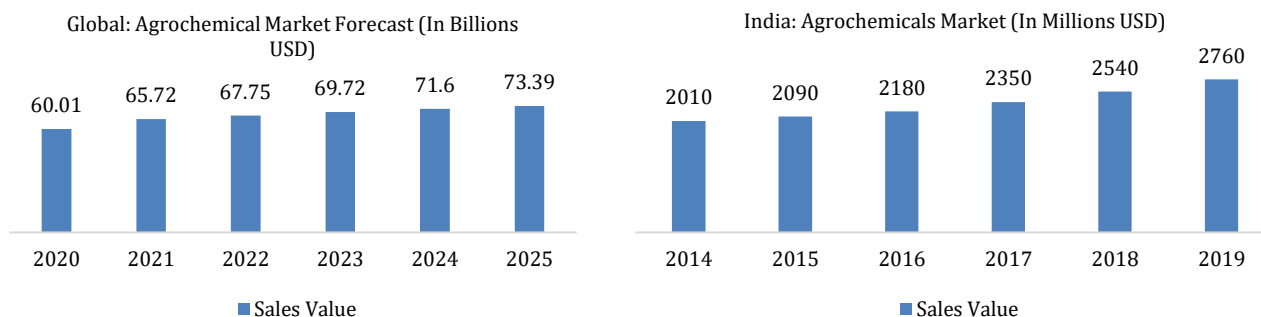
HIL's revenue grew ~13% CAGR over FY18-20 led by increase in volume & demand in all product categories, increase in export sales and good monsoon. PAT grew at a CAGR of 44% over FY18-20 led by better operating performance and topline growth. EBITDA and PAT margins remain healthy in the range of 11-14% and 6-10% over FY18-20. RoE and RoCE were also healthy and clocked 36% and 33%, respectively, in FY20. Exports contribute ~49% to FY20 revenue from operations. Adoption of 'Blue Sky' program in China (shutdown of agrochemical plants in china due to green movements) is expected to result in higher volumes of Pyrethroids exported from India. Being a dominant player in Pyrethroids market, HIL is well placed to reap the benefits of industrial growth on the back of increasing food demand, demand for horticulture, export potential and favourable Govt. policies.



Source: RHP, Geojit Research

Industry Outlook

The global agrochemicals market reached a value of US\$ 65.59 Billion in 2019, growing at a CAGR of 0.87% during 2014-2019. Agrochemicals have gained popularity in the agriculture industry in recent years because they help farmers boost their crop quality as well as quantity. Considering, the current global population scenario, rising crop production within the present arable land to feed the global population is of utmost importance, which is helping the agrochemicals market to grow further.

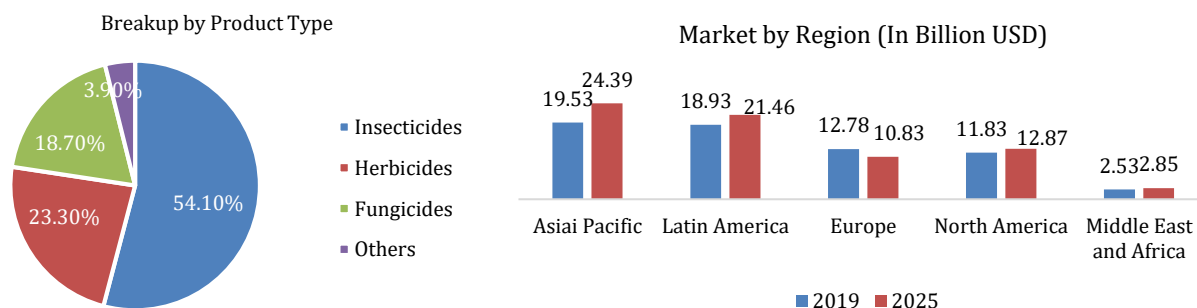


Source: RHP, Geojit Research

Growing at a CAGR of nearly 7.4% during 2014-2019, the India Pyrethroids market is currently experiencing a positive growth. In 2019, the market reached a sales value of US\$ 110 Million. Pyrethroids are cost-effective alternatives for conventionally used insecticides. The demand for pyrethroids in India is expected to remain positive during 2020-2025, exhibiting a CAGR of 19.6% and reaching a sales value of US\$ 205 Million by 2025. Looking forward, the global agrochemicals market is expected to grow at a CAGR of 4.11% during 2020-2025, reaching a value of US\$ 73.39 Billion by 2025. The agrochemicals market in India reached a value of US\$ 2,760 Million in 2019, growing at a CAGR of 6.5% during 2014-2019. In India, the agrochemicals market is rising due to growing demand for food driven by an increasing population. Moreover, India's agrochemical market is expected to grow in the forecast period due to rising export opportunities for Indian suppliers owing to the shutdown of agrochemical plants in China due to green movement.

Market Breakup by Product Type & Region

In 2019, Insecticides represented the most popular product type in the agrochemicals industry of India, accounting for 54.1% of the total market in India. The insecticides were followed by herbicides (23.3%), fungicides (18.7%) and others (3.9%).

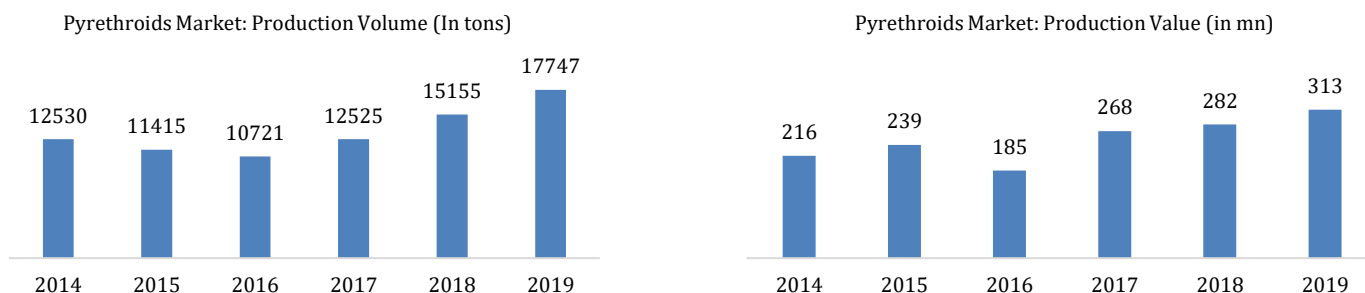


Source: RHP, Geojit Research

Asia Pacific represented the largest market for agrochemicals globally, accounting for 29.8% of the total market in 2019. Asia Pacific was followed by Latin America (28.9%), Europe (19.5%), North America (18.0%) and Middle East and Africa (3.9%).

Pyrethroids Market

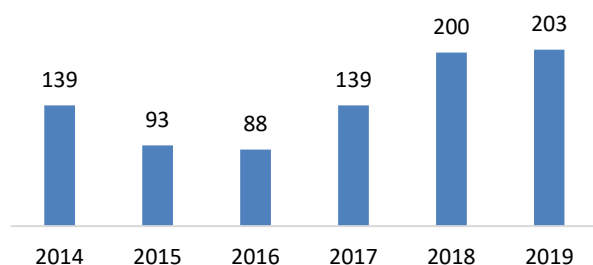
The Pyrethroids market in India reached a production volume of 17,747 tons in 2019, growing at a CAGR of 7.2% during 2014-2019. In terms of production value and consumption value, the market reached a value of US\$ 313 Million and US\$ 110 Million in 2019, exhibiting a CAGR of 7.7% and 7.4% during 2014-2019 respectively.



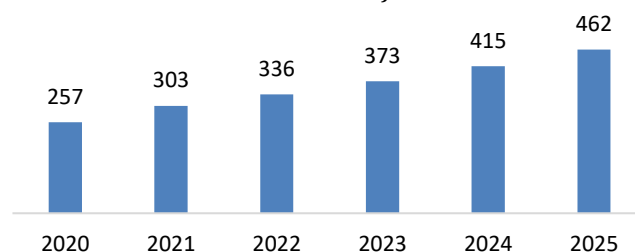
Source: RHP, Geojit Research

The Indian Pyrethroids market reached an export value of US \$203 million in 2019, growing at a CAGR of 7.9% during 2014-2019. Looking forward, the Pyrethroids market in India is expected to grow at a CAGR of 8.5% during 2020-2025, reaching a production volume of 25,398 Tons by 2025. Moreover, the production and consumption value is expected to reach a value of US\$ 462 Million and US\$ 205 Million by 2025, exhibiting a CAGR of 12.5% and 19.6%, respectively.

Pyrethroids Market: Export Value (In Million US\$)



Pyrethroids Market Forecast: Production Value (In Million US\$)



Source: RHP, Geojit Research

Impact of COVID

The Agrochemical industry was categorized under essential commodities and was allowed to operate during the lockdown. At Factory, steps were initiated to monitor and control the operations including the travel ban, thermal screening, sanitation and awareness campaigns have been conducted through video, mailers, posters, etc. The initial period (about a week) of lockdown operations were at a slow pace due to streamlining of processes by the Government authorities for movement of materials and personnel. Post this, operations started improving on a week by week basis. Sales of goods are almost normal even in the initial period of lockdown. Heranba Team has exhibited very good teamwork to maintain and accelerate operations during these toughest days. There is no significant impact on the operations of Heranba and the Company is poised to generate growth in the operations.

Promoter and promoter group

Sadashiv K Shetty, Raghuram K Shetty, Babu K Shetty and Vittala K Bhandary are the promoters of the company.

Brief Biographies of Directors

The Board consists of 10 Directors on board, out of which 5 are Independent Directors. The board of directors of HIL comprises of the following:

- **Sadashiv K. Shetty**, is the Promoter, Chairman and Executive Director of the Company. He has experience of more than three decades in agrochemicals industry. Shetty has been on the Board since September 29, 1994. He has been and is responsible for the overall supervision, direction and management of the Company. He has been previously associated with Sudarshan Chemical Limited, Gharda Chemical Limited, Hoechst Pharmaceuticals and Nirlon Limited.
- **Raghuram K. Shetty**, is the Promoter and Managing Director of the Company. He has experience of more than three decades in agrochemicals industry. Shetty has been on the Board since September 29, 1994 and has been instrumental in developing the export business of the Company.
- **Sujata S. Shetty**, is the Whole-time Director of the Company. She has experience of more than Eighteen years in agrochemicals industry. She has been on the Board of Directors since December 27, 2001. She looks after administrative functions of the Company.
- **Vanita R. Shetty**, is the Whole-time Director of the Company. She has experience of more than eighteen years in agrochemical industry. She has been on the Board of Directors since December 27, 2001. She looks after human resource related activities in the Company.
- **CA Raunak R. Shetty**, is the Whole-time Director of the Company. He has an experience of more than two years in the field of accounts and finance. He has been on the Board of Directors since December 4, 2017. He looks after product development and finance function of the Company.
- **Mulky V. Shetty**, is an Independent Director of the Company. He has over two decades of experience in chemical industry in different fields such as product development, setting up plant and manufacturing operations. Currently, he acts as a consultant in the chemical industry.
- **CA Kaushik H. Gandhi**, is an Independent Director of the Company. He is a practicing Chartered Accountant by profession since 2008. He has more than twelve years of experience in audit, project finance, taxation, secretarial and accounting.

Financials

Profit & Loss Account

Y.E March (Rscr)	FY19	FY20	H1FY21
Sales	1,004	951	618
% change	34.8	-5.3	-
EBITDA	131	129	99
% change	49.5	-1.5	-
Depreciation	6	8.2	6.6
EBIT	125	121	92.7
Interest	10.7	9	3.46
Other Income	7.4	16.5	.9
Exceptional Items	0	0	0
PBT	122	129	90.1
% change	60	5.6	-
Tax	47	31.1	23.8
Tax Rate (%)	38.3	24.1	26.4
Reported PAT	75	98	66
Adj	-	-	-
Adj PAT	75	98	66
% change	60.6	29.8	-
No. of shares (cr)	4	4	4
Adj EPS (Rs)	18.8	24.4	33*

Balance Sheet

Y.E March (Rscr)	FY19	FY20	H1FY21
Cash	21	3.2	25.3
Accounts Receivable	253	258	372.8
Inventories	114	146	173.5
Other Cur. Assets	63	64	52.2
Investments	0	4	12.5
Net Fixed Assets	51.1	95.4	130.7
CWIP	15.97	37.8	3.3
Intangible Assets	-	0.0	0.0
Other Assets	41.6	16.5	17.9
Total Assets	560	625	788
Current Liabilities	257	243	341
Provisions	15	14	16
Debt Funds	50	43	38
Minority Interests	0	0	0
Def. Tax	10	4	12
Equity Capital	39	39	39
Reserves & Surplus	189	282	342
Shareholder's Fund	228	321	441
Total Liabilities	560	625	788
BVPS (Rs)	57	80	110

Cash Flow

Y.E March (Rscr)	FY19	FY20	H1FY21
PBT	122	128.8	90.1
Non-cash adj.	16.5	17	10
Changes in W.C	(50.9)	(91.2)	(47)
C.F.O	87.6	54.2	52.3
Capital exp.	(25.7)	(40)	(7)
Change in inv.	-	(3.5)	(9)
Sale of investment	0	0	0
Other invest.CF	(11.7)	(8.7)	(.07)
C.F - investing	(37.4)	(52)	(15.9)
Issue of equity	-	-	-
Issue/repay debt	(36.4)	(15)	(8)
Dividends paid	(5)	(5)	(6)
Other finance.CF	-	(0)	(0.1)
C.F - Financing	(41.1)	(19.9)	(14.3)
Chg. in cash	9.1	(17.7)	22.1
Closing cash	20.9	3.2	25.3

Ratios

Y.E March	FY19	FY20	H1FY21
Profitab. & Return			
EBITDA margin (%)	13.1	13.6	16.1
EBIT margin (%)	12.5	12.7	15
Net profit mgn.(%)	7.5	10.3	10.7
ROE (%)	39.1	35.6	17
ROCE (%)	32	32.5	16
Working cap & Liquidity ratios			
Receivables (days)	82.9	98.2	92.9
Inventory (days)	54.4	74.3	69.2
Payables (days)	75.2	85.9	75.1
Current ratio (x)	1.66	1.85	1.78
Quick ratio (x)	1.07	1.08	1.17
Turnover &Levg.			
Net asset turnover (x)	20.6	13	5.5
Total asset T.O (x)	2	1.6	0.9
Int. covge. ratio (x)	11.7	13.7	26.8
Adj. debt/equity (x)	0.2	0.1	0.1
Valuation ratios			
EV/Sales (x)	2.5	2.7	2.1*
EV/EBITDA (x)	19.5	19.7	12.8*
P/E (x)	33.3	25.7	18.9*
P/BV (x)	11	7.8	6.6*

*Annualized

General Disclosures and Disclaimers

CERTIFICATION

I, Sheen.G, author(s) of this Report, hereby certify that all the views expressed in this research report reflect my personal views about any or all of the subject issuer or securities. This report has been prepared by the Research Team of Geojit Financial Services Limited, hereinafter referred to as Geojit.

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